

This bill sets up a defined contribution plan for all new hires. Since it has an appropriation in it, it had to be introduced in the House, and I appreciate Chairman Himmelberger's indulgence. I also appreciate the committee's time given your busy schedule. I'll move quickly and try not to rehash old ground we've already covered in previous hearings, such as the benefits and detriments of treating new employees differently from current employees, and would appreciate it if opponents would avoid re-hashing those prior debates as well.

HB 827 applies to all new TRS and PERS employees, hired after the plan is setup. The bill then takes the state money saved by switching to the DC plan and redirects it into the existing defined benefit plan to payoff the actuarially unsound portion of the pension liability. I'm responsible for the plan design, but I will say that it was designed with significant help of the legislative auditor's office and the pension specialist in legislative services. I believe this bill will do several things:

- 1) Help fix the pension funding problem without pumping hundreds of millions of taxpayer money into it during this biennium, or again in future years.
- 2) Alleviate the need to raise the state pension contribution funding rate. This will also save the taxpayers multiple millions of dollars.
- 3) Provide an attractive new retirement plan for new hires which entices specifically those people interested in pursuing longterm employment with the State. This will have the side benefit eventually of reducing our training costs.
- 4) Ensure the state never again faces a pension crisis such as we have today. I recognize the House has passed legislation to temporarily bail us out of the current crisis. But please consider carefully - The next time we have a pension funding crisis, we may not have a billion dollar general fund surplus to work with. This was pure luck this time, and odds are if we don't pass this bill, next time it happens we'll be faced with a pension deficit at the same time we have a general fund deficit.

Let me tell you how it works. Most of the bill is just mechanics setting up the DC plan. The policy considerations are on pages 6 & 7. Section 10 sets up a graduated State matching schedule based on longevity. Section 11 takes the money saved by the low match in early years and sweeps it over into the current defined pension plan to alleviate the unsound liability over a few years.

The matching schedule in section 10 starts out with only a 1% match, but graduates over time to 7 and 8 % matches. As you know, these upper-end match rates are even higher than the state's current 6.9% DB plan contribution; so this will be very attractive to those who want to pursue a longterm career with the State.

But in the early years, the state match is far lower than the 6.9% rate. Since many state employees end up terminating before 5 years; the savings to the state over the long term will be huge. In fact, more than half of state employees quit at 11 years or less. This DC plan only matches them at 3% up thru year 10, so obviously there will be significant money saved which will be re-directed towards the DB plan deficit. Moreover, in the first few years the savings will be even greater. Why? Because this plan only applies to new hires. Thus, even those who will eventually become longterm employees and qualify for the higher match will start out at the lower match.

Section 11 then sweeps the money saved by the lower match over into the DB plan to cure the unsound liability over time. I've seen preliminary fiscal note data which is based on an incorrect assumption about the intent of Section 11; stating that the contribution rate for existing employees would have to go up to something like 16%. That clearly is not the intent, and I've already asked the drafter, who is the legislative services pension expert, to draft clarifying language to make sure the bill matches my intent. He believes he can have that amendment for the committee by tomorrow. I know there's a rush to get a correct fiscal note, so my suggestion is that the committee consider adopting a conceptual amendment today to ensure that any savings under the DC plan be re-directed into the DB plan. That way PERS and TRS actuaries won't waste valuable time and resources drafting an inaccurate fiscal note. The bill drafter said that approach was fine with him.

Aside from sections 10 and 11, additional sections of import include: Section 8 - which applies the new DC plan to all new hires. Section 9 - which allows employee flexibility to contribute pre-tax the maximum amounts allowable under IRS rules. Section 15 which sets up a 5 year vesting. Section 24 - which sets up a timetable leading up to a July 1, 2009 date for the plan to be operational. That deadline gives plenty of time, and also provides a stop-gap safety valve, that the next legislature can pull the plug if there are insurmountable roadblocks. Section 26 - directing PERB to obtain an IRS ruling that the plan meets qualified plan requirements. And Section 57 (p. 47) which sets up a million dollar appropriation for start up costs.

The rest of the bill - pp. 15 to 46, is just cross-referencing to existing pension statutes.

Final point - HB 827 is completely compatible with the Governor's pension plan fix - HB131. If the House sees fit to pass both, they can easily be coordinated and would result in fixing things that much quicker.